

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2008**

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

FOR THE YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

	<u>Page</u>
<i>Memorandum on Internal Control Structure</i>	1
Schedule of Significant Deficiencies	3
Schedule of Other Matters.....	7
Status of Prior Year Findings	11
<i>Required Communications</i>	15
Financial Statement Audit Assurance.....	15
Other Information Included with the Audited Financial Statements.....	15
Accounting Policies	15
Unusual Transactions, Controversial or Emerging Areas	16
Estimates.....	16
Disagreements with Management.....	16
Retention Issues	17
Difficulties.....	17
Audit Adjustments	17
Uncorrected Misstatements	17

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February 6, 2009

To the Board of Directors
The Bay Area Air Quality Management District
San Francisco, California

In planning and performing our audit of the financial statements of the Bay Area Air Quality Management District (District) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions of a significant deficiency or material weakness that we believe to be of potential benefit to the District.

The District's written responses included in this report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, Board of Directors, others within the District, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES
JUNE 30, 2008**

2008-01 INFORMATION SYSTEM

We conducted an Information Systems Review with our audit, which encompassed the District's financial information system and the network environment. We looked beyond the financial information systems as a result of greater risks of unauthorized access caused by overall industry growth of web-based commerce and internet based financial systems. Internal controls that are present in the overall network environment have become more important and relevant to understanding the internal controls over the financial system. We believe Information System controls must be continuously improved and enhanced to stay ahead of the ever-increasing sophistication of hackers and criminals.

Currently, there are no Information Technology (IT) standards to which local governments are required to conform. Indeed, there are a wide variety of informal guidelines and suggested controls from many different organizations, which local governments can use to implement appropriate controls to ensure adequate security over information technology. Our Information Technology staff has reviewed these informal guidelines and we have concluded that the certification and accreditation framework developed by the National Institute of Standards and Technology (NIST) for the Federal Information Security Management Act (FISMA) is the most appropriate for local governments. NIST standards represent the minimum-security requirements for Federal government agencies information systems. We understand the U. S. Department of Justice recommends these for local law enforcement. Our procedures included performing an external network scan based on PCI DSS criteria and NIST in determining that internal control provides for:

- Internet access defenses including hacker prevention, detection and deterrent systems
- Security of data from physical or network access
- Adequately protecting data from unauthorized internal access
- Reasonable measures to ensure continuation of service

As a result of our work we believe that the District's external (internet) facing systems are highly susceptible to attack and exploitations. Further, we believe that controls appear to be inadequate to protect, deter and defend from any such attack. A summary of these results are as follows:

External Scan Results

Our external scan found exploitable vulnerabilities in the District's externally facing systems (systems connected directly to the internet) which may be used to gain control of those systems. Externally facing systems should have the greatest level of security. Our results indicate a weakness in the information systems control processes. These vulnerabilities should be mitigated as soon as possible. In addition, the District should establish a means to monitor the effectiveness of their information systems control procedures, including periodic vulnerability scans.

Server Crash

The District's IT staff has reported that our scan caused a single system to crash. We use a scanning method approved by Payment Card industry Security Standards Council (PCI SSC) that is designed to be the least intrusive.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES
JUNE 30, 2008**

Although it is extremely remote that the scan would bring down a system, it is possible for a fragile system to be brought down by the scan. Such systems should not be internet facing given that any Denial-of-Service (DoS) attack or even normal use of the system could bring the system down. If a non-intrusive scan brought down the system, it needs immediate improvement and is in danger of a Denial of Service attack.

These results are a representative demonstration of a weakness in the security management process, risk management process, deployment testing, patch management process, vulnerability management process, vulnerability scanning process, system hardening, continuity of service and adequate data protection. We recommend immediate mitigation of all related to information system security concerns.

Management Response:

Exploitable vulnerabilities were indicated on computers that are administered under policies and practices used exclusively for computers that serve the District Planning (Research and Modeling) functions. The same policies and practices are not followed to administer servers or network devices that are part of the District's financial systems. Additionally, the computers with indicated vulnerabilities are all administered by a single individual that does not have administrative credentials for any device (including workstations or servers) on the District's financial network. Because of these facts, the District believes that the level of control in the District's financial network is not accurately represented by the indicated vulnerabilities.

Further, if an intrusion were to occur on one or more computers with indicated vulnerabilities, the intruder would not be able to exploit the vulnerability to access the District's financial systems because IP traffic is disallowed from those networks.

The District agrees that Information System controls must be continuously enhanced to stay ahead of ever increasing sophistication of hackers and criminals. As such, the District plans to address the issues and improve the controls on all perimeter devices.

2008-02 BOARD AND MANAGEMENT INVOLVEMENT

The District had approximately \$92 million of revenue for fiscal year 2007-08. Its growth has been rapid over the past several years and as such, it is now an organization that is much different in size than several years ago. In light of this fact, coupled with the fact that the District expects this type of growth to continue, we believe that the District would benefit from greater involvement from its Board. We recommend, therefore, that the Board be actively involved in adopting operational policies and the reviewing of District operations.

Investment Policy and Quarterly Investment Report

The District does not have a formal written investment policy. Also, although San Mateo County administers the cash account and investment portfolio for the District, there is no formal agreement between the District and San Mateo County Investment Pool. In addition, no interim report is submitted to the Board to provide information of the cash and investment positions of the District during the year. The information is only communicated annually to the Board through the annual Basic Financial Statements, which is accepted by the Board eight months after the year-end.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES
JUNE 30, 2008**

California Government Code Section 53646 encourages local agencies to annually submit their investment policies to their legislative bodies. It also encourages local agencies to render quarterly treasury reports to the chief executive officer and the legislative bodies.

The District had an investment portfolio of approximately \$130 million as of June 30, 2008, all of which was handled by San Mateo County. It is important that the District Board stay informed of cash and investment positions of the District more regularly. The District should establish a formal written investment policy that details the Board's philosophies, policies, and goals (both short and long-term). Since the District's portfolio is part of the San Mateo Investment Pool, the policy should state that the Board elects to continue this arrangement. The policy should also state who has the right to transfer funds between the cash and investment accounts, transaction amount limits, and who can authorize purchases and sales of investments (in this case, withdrawals from the County). Annually, the Board should review the County's investment policy, audited financial statements, and memorandum of internal control to ensure that the Board is comfortable with the make up of the County's investment portfolio and its internal controls.

In addition, the District's management should report its cash and investment values to the Board at least quarterly using the guidelines provided by the California Government Code.

Capital Assets and Depreciation Policy

The District's Capitalization and Depreciation Policy has not been adopted by the Board. To provide proper guidelines to District's management, the District Board should adopt a formal Capitalization and Depreciation Policy. At the minimum, a capitalization policy should have the following elements:

- Establish a minimum dollar amount for capitalization within the various property accounts.
- Prepare written guidelines for proper account classification of all routine fixed asset additions (furniture and fixtures, leasehold improvements, etc.).
- Formalize District's policy to differentiate between maintenance and repair items and long-term improvement items.

Record Retention Policy

The District currently does not have a formal Record Retention Policy. As a result, the District's current practice is to keep its records indefinitely. Keeping extensive records takes up storage space, which requires more energy consumption. Also, the lack of policy means that individual employees are left with the judgment of whether a particular document should be kept, thus exposing the District to the risk of losing valuable and irreplaceable documents. We recommend the District adopt a record retention policy that clearly defines the types of documents to be kept and the retention period for each class of documents.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES
JUNE 30, 2008**

Travel Policy

Section 5 of the District's Administrative Code defines allowable expenses for business travel. However, the Code does not set maximum reimbursable amounts for lodging and meal expenses, nor does it provide a definition on what qualifies as reimbursable "actual and necessary incidental expenses". Travel related expenses can be an area for intense analysis and scrutiny in the event of an audit by the Internal Revenue Service (IRS) or other such inquiry or investigation. The District should consider providing further guidelines on the areas mentioned above. Alternatively, the District can consider following the Per Diem Rates (For Travel Within the Continental United States) Publication 1542 published annually by the IRS. This Publication lists the maximum per diem rates an entity can pay to its employees for lodging, meals and incidental expenses without treating part of the per diem allowance as wages for tax purposes.

Other Policies to be Considered

The District Board should also consider adopting policies governing the Budgetary Process and Fraud Prevention.

Management Response:

The District is currently in the process of addressing the Board and Management involvement through the following actions:

Investment Policy and Quarterly Investment Report

The District, as noted above, is required to maintain cash and investments in the County of San Mateo Treasury (the County), and as such, the management reviews and acknowledges receipt of their Investment Policy on an annual basis. The County, however, is in the process of revising their Investment Policy to adopt a more conservative investment approach. As such, the District intends to formally adopt, by Board resolution, the County's revised Investment Policy, as soon as the policy becomes available. The District will also include in the Quarterly Financial Report to the Board the status of the cash and investment values, beginning with the Second Quarter of fiscal year 2009, after it has been determined which format would best serve the Board.

Capital Assets, Record Retention, Travel, and Other Policies

The Capital Assets and Depreciation Policy, Record Retention Policy, Travel Policy, and Fraud Policy are all in the process of being revised and updated, and the District expects to have the revisions completed and adopted by Board action. The District has incorporated budgetary assumptions and procedures in the on-line electronic budget files.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF OTHER MATTERS
JUNE 30, 2008**

2008-03 OTHER MATTERS IN INFORMATION SYSTEM

Payment Card Industry Compliance

In order for the District to be in compliance with the Payment Card Industry Data Security Standard (PCI-DSS) for securing credit card information, the District will need to develop written policies addressing PCI specific controls. Additionally, an organization that processes credit cards is required to comply with PCI-DSS, even if the processing is outsourced. Failure to meet compliance results in higher transaction fees and liability if a security breach is found. Because the District accepts credit cards as a form of payment, the District must be compliant with the applicable controls.

We understand that the District is currently working on the above compliance. We recommend the District continue and perform a compliance review annually.

General Information Systems Controls

We reviewed the compliance of the District's information systems with the National Institute of Standards and Technology (NIST) information security standards based on a moderate risk system. The following is a list of controls that were not in place. We recommend the District choose an appropriate industry standard such as NIST to help plan, organize and review information security. In lieu of this selection, we recommend the District continue with the controls that we found in place during our review and review and implement the list of controls noted as discussed.

Management Response:

The District will ensure that written policies are in place and available in conformance with the Payment Card Industry Data Security Standard, and will review the general systems control to determine controls to implement which are both efficient and cost-effective.

2008-04 GASB UPDATES

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets (Effective for fiscal 09/10) - Retroactive Application Required*

Governments have different types of intangible assets, such as easements, water rights, patents, trademarks, and computer software. Easements are referred to in the GASB 34 description of capital assets which has raised questions about whether and when intangible assets should be considered capital assets for financial reporting purposes.

The absence of specific authoritative guidance has resulted in inconsistencies in the recognition, initial measurement, and amortization of intangible assets among governments. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies and enhance comparability.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF OTHER MATTERS
JUNE 30, 2008**

A summary of the statement:

- Intangible assets should be classified, accounted for and reported as capital assets, unless excluded from the scope. Guidance in this statement is in addition to existing capital asset guidance.
- GASB 51 specifically addresses the nature of intangible assets.
 - *Lack of physical substance.* An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance.
 - *Nonfinancial nature.* In the context of this Statement, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.
 - *Initial useful life greater than one year.*
- GASB 51 excludes:
 - Assets acquired or created primarily for the purpose of directly obtaining income or profit.
 - Assets resulting from capital lease transactions reported by lessees.
 - Goodwill created through the combination of a government and another entity.
- Recognition of an intangible asset occurs only if it is considered identifiable. That is when either of the following apply:
 - The asset is separable from the government. That is it can be sold, transferred, licensed, rented, or exchanged.
 - The asset arises from contractual or other legal rights, regardless of whether transferable or separable.
- Specific conditions must present to recognize internally generated intangibles. Capitalization of costs begins after all of the following criteria are met:
 - Determination of specific objectives of the project and the nature of the service capacity expected upon the completion.
 - Demonstration of the feasibility that the completed project will provide its expected service capacity.
 - Demonstration of the current intention, ability, and effort to complete or continue development of the intangible asset.
 - Internally generated computer software is used as an example in applying the specific conditions approach.
- Amortization lives are addressed:
 - Limited by contractual or legal provisions.
 - Renewal periods for rights may be considered if there is evidence that the government will seek and be able to achieve renewal and that any anticipated outlays to be incurred as part of achieving the renewal are nominal. Such evidence should consider the required consent of a third party and the satisfaction of any conditions required to achieve renewal.
 - An indefinite life (no amortization) is permitted so long as there are:
 - No limiting legal, contractual, regulatory, technological, or other factors, and
 - No subsequent change in circumstances.
 - A permanent right-of-way easement is an example.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF OTHER MATTERS
JUNE 30, 2008**

Retroactive Application For GASB 34 Phase I & II governments, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980. Retroactive reporting is not required intangible assets with indefinite useful lives as of the effective date of this Statement nor for internally generated intangibles.

Retroactive reporting Phase III governments are not required.

Management Response:

The District has no intangible assets as described by GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, other than the JD Edwards (JDE) accounting system software, and the new District Production System that is currently in the preliminary project stage. Both the JDE accounting system and the Production System have been treated, for accounting purposes, in accordance with the AICPA's Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. As such, the District believes that the accounting treatment of intangible assets is in accordance with GASB Statement No. 51.

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

STATUS OF PRIOR YEAR FINDINGS

FISCAL YEAR 2006-07 RECOMMENDATIONS

CAPITAL ASSET POLICIES AND PROCEDURES

Observation:

The Capital Asset Policies and Procedures do not reflect the current practice of capitalization threshold and construction in progress transfer procedures upon completion. Without adequate documentation of existing procedures, changes in personnel may jeopardize the efficient processing of daily activities.

Recommendation:

The auditor recommended that the District update the Capital Asset Policy to reflect the current practices.

Current Status:

The District is currently in process of updating the policies and procedures for the areas addressed above.

PURCHASING AND ACCOUNTS PAYABLE

Observation:

Business Manager's access to the purchasing module is not limited to his normal duties. Occasionally, when any of the authorized personnel is out of the office, his approval can be delegated to other personnel. The Business Manager is responsible for changing the approval set-up in the module upon receiving email confirmation requesting the delegation. The Business Manager, who also has the authority to approve purchase requisition up to certain limit, has the access to change the approval set-up at anytime. The full access that Business Manager has indicates a weakness in the internal control, which provides opportunity for unauthorized purchases.

Recommendation:

The auditor recommended that the District establish procedures to ensure the proper segregation of duties and review process in the purchasing process to prevent unauthorized purchases.

Current Status:

The Business Manager's access to approve purchase requisitions is now limited to Business Office related requisitions.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

STATUS OF PRIOR YEAR FINDINGS

WORKERS COMPENSATION

Observation:

There was no regular reconciliation performed between workers' compensation Loss Run Reports received from the Third Party Administrator and the District's claim log in the system. Such reconciliation will ensure that all claims against the District are properly reflected on the Loss Run Reports provided by the Third Party Administrator.

Recommendation:

The auditor recommended the District establish procedures to reconcile the claims log to the workers' compensation Loss Run Report to assure that the information in the Loss Run Report reflects all claims against the District. This would assure that information in the Loss Run Report is accurate, since this information is relied upon by the actuarial study to determine the amount the District should record for claims liability.

Current Status:

The Administrative Services Division is now reconciling the third-party Administrator's workers compensation Loss Run Report to the District's Claim Log on a monthly basis.

PAYROLL PROCESS

Observation:

The Payroll Technician processes the payroll and uploads the payroll information to third party payroll processing company (Ceredian). No independent review is performed of the payroll register to ensure the accuracy.

Recommendation:

The auditor recommended that the District review and evaluate their internal control structure for the payroll processing to ensure procedures are in place for proper management oversight.

Current Status:

The District Finance Department performed an independent review of both the Ceridian Payroll Register and the District's Position Control to ensure the integrity of the payroll process; no discrepancies were noted.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

STATUS OF PRIOR YEAR FINDINGS

COMPUTER CONTROLS

Observation:

The Disaster Recovery Plan does not offer a solution if the computer equipment of the District was damaged as result of fire or any other disaster. The District has back-up tapes but will not have the equipment necessary to run the tapes in case of disaster.

Recommendation:

The auditor recommended that the District expand its disaster preparedness to address the issue by either getting into an agreement with other agencies that are using the same software and/or equipment. Or, the District could establish an agreement with a company in the disaster recovery business such as Sunguard.

Current Status:

The District entered into an agreement during fiscal year 2009 to back up the computer systems remotely; the equipment is currently in place, and the District is in the process of testing the system to ensure that it functions as intended.

COMPUTER CONTROLS

Observation:

The District does not require employees to change password periodically. The regular password changes will increase the security level over District's computer control.

Recommendation:

The auditor recommended that the District establish procedures to ensure that passwords to the computer are changed periodically.

Current Status:

The District has enhanced the security settings to require mandatory password changes for the JD Edwards accounting and Windows based software on a quarterly basis.

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REQUIRED COMMUNICATIONS

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February 6, 2009

To the Board of Directors of
the Bay Area Air Quality Management District
San Francisco, California

We have audited the financial statements of the Bay Area Air Quality Management District as of and for the year ended June 30, 2008 and have issued our report thereon dated February 6, 2009. Professional standards require that we advise you of the following matters relating to our audit.

Financial Statement Audit Assurance: Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

Other Information Included with the Audited Financial Statements: Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures are explained in our audit report.

Accounting Policies: Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements.

As described in Note 1D to the financial statements, in fiscal year 2008, the District changed its application on one of its accounting policies in which the recognition of revenue in interest earned from DMV fees was deferred until disbursements are made. As a result, \$26,511,937 of beginning fund balance in the Special Revenue Fund was reclassified as deferred revenue at July 1, 2007.

Also, as described in Note 9 to the financial statements, during the year, the District implemented the following new standard:

- GASB Statement No. 50 *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*

This Statement amends disclosure requirement for defined benefit pension. The current disclosures of Note 9 to the financial statements comply with this Statement.

Unusual Transactions, Controversial or Emerging Areas: No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2008. While there have been no changes in accounting policies or disclosures resulting from the credit crisis, we believe the unprecedented volatility of credit markets occurring after year end warrants mention.

- *Credit Risk and the Financial Crisis:* The District has credit risks in its investments (Note 2). Credit risks as of June 30, 2008 for these areas have been disclosed in accordance with generally accepted accounting principals.

However, subsequent to year end, financial markets experienced significant reductions of available credit and certain financial institutions have had their credit ratings downgraded with one large institution entering bankruptcy. The Federal government has taken steps to support financial markets in an effort to stave off further negative trends. These conditions have increased credit risks which warrant continuous monitoring and reassessment of the risk that credit counterparties and investees maybe downgraded or be unable to fulfill their obligations. Highest priority should be placed on maintaining a credit watch on its counterparties and formulate contingency plans as needed to ensure credit remains available for its operations.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are fair values of Investments.

- *Estimated Fair Value of Investments:* As of June 30, 2008, the District, held approximately \$130 million of cash and investments as measured by fair value. Fair value is essentially market pricing in effect as of June 30, 2008. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2008.

Disagreements with Management: For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the District's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Retention Issues: We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as the District's auditors.

Difficulties: We encountered no serious difficulties in dealing with management relating to the performance of the audit.

Audit Adjustments: For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the District, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the entity's financial reporting process.

Uncorrected Misstatements: There were no uncorrected financial statement misstatements.

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This report is intended solely for the information and use of the audit committee, Board of Directors, and management and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

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